



The **WALT DISNEY** Company



August 15, 2008

LETTER OF COMMENT NO. 103

Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards 133 amended: “Accounting for Hedging Activities, an amendment of FASB Statement No. 133”

File Reference No. 1590-100

Dear Mr. Golden:

The Walt Disney Company (TWDC) is pleased to have the opportunity to comment on the proposed amendment to FASB statement No. 133, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133* (Exposure Draft). We understand the Board’s intent behind the Exposure Draft is to simplify the accounting for hedging activities and improve financial reporting. Although we support these objectives, we do not believe the Exposure Draft clearly meets these objectives and in certain areas will result in increased complexity and cost. In addition, considering the current momentum towards convergence with International Financial Reporting Standards (IFRS), the Exposure Draft would require companies to apply a new standard that currently diverges from IFRS for an abbreviated period, and then potentially change hedge accounting again if IFRS is adopted in the United States. Accordingly, we recommend that the Board not proceed with issuing the Exposure Draft as a final standard but rather work with the International Accounting Standards Board to develop converged hedging guidance that better simplifies and improves the accounting for hedging activities.

However, if the Board decides to proceed with issuing a final standard, we recommend that the Board reconsider the following conclusions, which we believe increase complexity and/or drive additional administrative activities and costs.

Bifurcation-by-risk

Eliminating the ability for an entity that is hedging to designate the individual risks to be hedged and requiring that the full fair value of a hedged item be recognized in the financial statements introduces financial statement volatility for risks that either are not hedged or can not be hedged. In contrast, a company that chooses not to hedge its risks is not required to reflect the impact of unhedged risks in its financial statements. As a result of the increased financial statement volatility and inconsistent treatment of unhedged risk between companies that hedge and those that do not, we believe the elimination of bifurcation-by-risk impairs the usefulness of the financial statements.



In addition, we share many of the concerns articulated in the Alternative Views section of the Exposure Draft, including the observation that derivative instruments are “generally designed to manage discrete risks” rather than all of the possible risks in an underlying instrument. The proposed guidance departs from actual risk management practices and available hedging alternatives. By eliminating the bifurcation-by-risk model, companies may not employ effective risk management practices as a result of the financial statement volatility introduced by the Exposure Draft.

Accordingly, we believe the Board should retain the bifurcation-by-risk hedging model.

Hedging After Inception

Companies manage their own issued debt to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of their borrowings. Interest rate risk is generally managed on a portfolio basis, and hedges are executed on debt instruments to achieve a balance between fixed and variable rate debt. Over time, companies’ risk management policies can change as management’s goals and objectives evolve and as external economic forces change. As such, companies may decide to enter into hedges after the debt has been issued (late hedges). Under the proposed standard, a late hedge of interest rates would require a company to consider its own credit risk in its calculation of ineffectiveness. In our conversations with financial instrument valuation consultants, they have indicated it is likely that late hedges would typically not qualify for hedge accounting even under the “reasonably effective” threshold. If this preliminary analysis turns out to be accurate, we suspect many companies that currently late hedge will no longer pursue what is otherwise an effective risk management technique because of the resulting financial statement volatility. Further, since companies that do not late hedge are not required to record the impact of their credit risk, we believe the resulting non comparability does not achieve improved financial statement reporting.

In addition, we do not understand the link between the timing of placing an interest rate hedge and the requirement to incorporate credit risk in the valuation of a company’s own issued debt. In the basis for conclusions, the Board states that at inception hedges are entered into in order to synthetically create fixed or variable rate debt while late hedges are entered into for liability/risk management purposes or interest rate speculation. In neither scenario is credit risk a deciding factor in considering when or whether to hedge. Accordingly, we do not believe that the timing of an interest rate hedge should be the trigger for the incorporation of credit risk in the valuation of the underlying debt.

If the Board decides to issue a final standard, we believe that the bifurcation-by-risk model should be expanded to incorporate all hedges of an entity’s own issued debt, rather than at inception only.

Elimination of Critical Terms Match and Shortcut Methods

We do not believe eliminating the critical terms match and shortcut methods will simplify accounting or improve financial reporting. The critical terms match and shortcut methods simplify “day-two” accounting for hedging activities. Since a company can only qualify for critical terms match or the shortcut methods when certain strict criteria are met, the hedging relationships that are accounted for using these methodologies should have very little ineffectiveness. Consequently, the Exposure Draft will require incremental effort to calculate and record immaterial amounts of ineffectiveness on hedges that qualify for the critical terms match



or shortcut. Accordingly, we believe the Board should retain the critical terms match and shortcut methods of accounting for hedging activities.

Dedesignation

We do not believe the elimination of a company's ability to dedesignate a hedge relationship meets the Board's stated objectives. By eliminating dedesignation, companies wishing to achieve the same economic outcome will be required to cancel the existing hedge and enter into an identical new hedge (as acknowledged in the Basis for Conclusions) which will result in additional administrative effort and cost. Since the elimination of dedesignation results in more effort and cost with little to no difference in accounting or economic result, we do not believe the Board should include this prohibition if it decides to issue a final standard.

IFRS and Transition Timing

There are substantive differences between accounting for hedging activities under IFRS and the Exposure Draft. In light of the possibility that US companies will convert to IFRS in the next few years, we believe any new guidance should reduce differences between US generally accepted accounting principles and IFRS. If the Exposure Draft is approved, US companies will adopt a temporary standard and incur the associated transition costs (e.g., documentation, training, systems implementation, process and control design) only to potentially be required to convert to IFRS a few years later and incur another round of transition costs.

In addition, although we have not yet determined the level of effort that would be required if the Exposure Draft is issued as a final standard, we are concerned that the transition period in the Exposure Draft does not provide sufficient time to effectively address the necessary system and process changes.

We would be pleased to respond to any questions regarding our response as well as other aspects of the Exposure Draft. Please contact me or David Haskett, Director – Controllershship Transaction Support at 818-973-4061.

Sincerely,

A handwritten signature in black ink, appearing to read "Brent A. Woodford". The signature is fluid and cursive, with a long, sweeping tail.

Brent A. Woodford
Senior Vice President, Planning & Control
The Walt Disney Company
818-560-5054